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SIPDIS

USDOC FOR 5102/FOREIGN TRADE ZONES (ITA/IA)

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SUBJECT: INFORMATION ON FREE TRADE ZONES IN HONDURAS

REF: STATE 72748

1. This cable is a response to reftel and provides information about Honduran Free Trade Zone laws:

a. Does the country have any type of customs free zone, free trade zone, foreign trade zone, export processing zone, freeport or manufacturing bonded warehouse? How many zones are there currently? Are there geographic limitations as to where they can be located? Are they successful?

-- Honduras has a Free Trade Zone program (FTZ) that allows the free importation of equipment and inputs for the use of export-oriented industries which is free of customs and most taxes, excluding income tax. There are two main components of the Free Zone program under Honduran law: Free Trade Zones and Export Processing Zones. There are 252 companies in 32 FTZ zones in Honduras with 95 customs points. There are no geographic limitations on free trade zones, as Honduran law allows a free trade zone to be formed anywhere in the country. These free zones have increasingly developed in the last 7 years. There were approximately 105,000 workers in FTZ companies in 2003, a 12% increase from 2002. Exports from FTZ companies generated USD 590 million in 2003, accounting for 24% of total exports.

b. How is the authority structured? Is the zone federally or locally administered? Are they considered enclaves that are outside of the country or are they customs-controlled?

-- The free-trade zones are managed privately but have to comply with regulations set forth by the Ministry of Industry and Trade. Municipalities locally administer FTZs through customs authorities throughout Honduras. They are considered enclaves that are outside of the country.

c. Is a license or other type of authority required for each manufacturing activity in the zone? If so, roughly how long does the process of obtaining a license take?

-- To obtain a free trade zone license, an authorization request must be sent to the Ministry of Industry and Trade. It takes 15 days for the evaluation and issue of the license. The company seeking a free trade zone license is required to pay a fee of 2 million lempiras (USD 111,203) to the GOH, and must show proof of availability of real property and technical and financial resources required for the purposes of the free-trade zone.

d. Can businesses manufacture products in the zone? Can they manufacture using both foreign and domestic inputs? Can the merchandise be sold in the home market?

-- Business manufacturers can produce goods in the free trade zones in Honduras. Manufacturers can use domestic and foreign inputs to produce these goods. Only 5% of total production of merchandise can be sold in the local market, with the payment of corresponding duties and import and sales taxes.

e. What are the customs benefits related to manufacturing or processing in the zone? Can merchandise be imported and re-exported duty free? Is duty payable on manufactured merchandise upon leaving the zone for the home market? Is capital equipment used for zone manufacturing activity permitted entry free of duty?

-- Any company located in a free trade zone, industrial park or export processing zone is exempt from paying import duties on goods and capital equipment, surcharges, selective consumption taxes, and sales taxes. In addition, the production within these areas is exempt from Honduran federal and municipal taxes. Merchandise can be imported and then re-exported duty-free in export processing zones and temporary import regimes. Manufactured merchandise leaving the zone for the home market is duty free. Any capital equipment that is exclusively used for zone manufacturing activity, providing these goods are not produced in the country, are exempt from duties, surcharges, consular fees, and other taxes.

f. Are there any special provisions for small and medium-sized businesses? Or, for new foreign direct investment?

-- Provisions are the same for any size of business.  
Honduran law prohibits discriminatory or preferential export and import policies affecting foreign investors.

g. Are there any tax exemptions (i.e., exemptions from tax on merchandise, income, real property)?

-- Income tax is payable on income derived from operations within Honduras, except for firms operating in the industrial parks, located in the free tourism zones (ZOLT) or under the temporary import regime. Companies in free trade zones, export processing zones, and temporary import regimes are 100% exempt from import duties for raw materials and inputs, export taxes, local sales and excise taxes, taxes on net assets, taxes on profits, and taxes on capital repatriation. Companies in free trade zones and export processing zones are also 100% exempt from taxes on profit repatriation. Tax is payable on real property found in free-trade zones. Income from labor performed in free trade zones, export-processing zones, and temporary import regime are subject to income tax (for individuals earning more than the legally specified level.

h. Are there any other financial incentives (loans, funding for infrastructure or facilities, subsidies on rent, utilities)?

-- The Honduran government does not currently provide incentives such as subsidies and preferential loans for free zone companies.

i. Are there exemptions from other laws or regulations (environmental, labor laws, nonproliferation export controls)?

-- There are no exemptions from other laws or regulations.

j. Are there any restrictions or requirements, such as export requirements, local content requirements, or ownership requirements?

-- The Investment Law of 1992 largely governs investment conditions in Honduras, and guarantees national treatment to foreign private firms in Honduras with a few exceptions. For all investments, at least 90 percent of a company's labor force must be Honduran and at least 85 percent of the payroll must be paid to Hondurans. The law does not limit foreign ownership of businesses, except for those specifically reserved for Honduran investors, i.e., small firms with capital less than 150,000 lempiras (approx \$8,600 dollars). Honduras has no quota regulations for any of its exports.

12. If there are any further questions on Honduras's FTZ, please contact Mauricio Achata (achatamb at state.gov, 504-236-9320, x4827) or Roy Alonzo (roy.alonzo at mail.doc.gov, 504-236-9320, x4092).

Palmer